SIX YEARS OF POSTAL SAVINGS IN THE UNITED STATES

Six years have passed since January 3, 1911, when the United States postal savings system, authorized by the act of June 25, 1910, first opened the doors of the post offices for the receipt of savings deposits. The opponents of postal savings assailed the plan as a socialistic proposal, which would place the government in the banking business and make it a dangerous competitor of existing banks. The proponents, on the other hand, looked upon it as a well-tried device that would draw idle money from hoards, cause the foreign population to keep their savings in the United States instead of remitting them so extensively to their native countries, and provide savings facilities for our large rural population, particularly that of the West and South, where banking facilities in the rural communities were often sadly lacking.[1] A trial period of six years should be sufficient to test the truth of these prophecies, and the present time, when all savings institutions are facing the great problems involved in a probable rise in the interest rate with the consequent depreciation of their bonds and mortgages of long maturities, is an opportune one to examine our experience in this venture. For convenience the subject may be discussed under the following heads, although a certain amount of overlapping in the discussion of the different topics will be necessary: (1) Administrative organization, (2) Depository post offices, (3) Depositors and deposits, (4) Investment of postal savings funds.

Administrative Organization

For "the control, supervision, and administration of the postal savings depository offices" and of the funds received on deposit, the act created a board of trustees somewhat analogous to the Postal Savings Bank Investment Board of the Philippines.[2] This Board of Trustees consists of three ex-officio members, the Postmaster General, the Secretary of the Treasury, and the Attorney

[1] The reader interested in the history of the postal savings movement in the United States leading to the legislation of 1910, in the debate in Congress over the subject, and in an analysis of the provisions of the act of 1910, will find them treated in the writer's article on "The United States Postal Savings Bank," *Political Science Quarterly,* vol. XXVI (1911), pp. 462-499.

[2] E. W. Kemmerer, "The Philippine Postal Savings Bank," *Annals of the American Academy of Political and Social Science,* vol. XXX (1907), p. 48.

General. These three officials were supposed to represent respectively the three important phases of the postal savings work: *i.e.*, administrative, financial, and legal. Wide discretionary powers were given to the Board of Trustees so that it might "feel its way" in developing the new system. The Treasurer of the United States is made treasurer of the board.

A few months experience with the new system showed that much delay was occasioned by the inability of the three members of the board to get together promptly when needed. Accordingly the Post Office Department Appropriation act of March 4, 1911 (section 5) amended the postal savings law by giving to the Postmaster General full authority with reference to the designation of postal savings depositories, the making of rules concerning the deposit and withdrawal of funds, and some other matters originally entrusted to the Board of Trustees as a whole. The investment and control of postal savings deposits continued to be entrusted to the board. During the year 1913 the administrative machinery of the postal savings system was reorganized and given a definite and permanent status in the Post Office Department, which it had previously lacked. On May 1, 1913, by administrative order of the Postmaster General, such part of the administrative business of the postal savings system as had up to that time been under the immediate supervision of the Postmaster General, together with the corps of employees doing the postal savings work, was transferred to the Bureau of the Third Assistant Postmaster General—the bureau in charge of the fiscal affairs of the Post Office Department—and a division was created in that bureau, to be known as the Division of Postal Savings, for the immediate charge of this work. Contemporaneously the Third Assistant Postmaster General was elected Secretary of the Board of Trustees and constituted its agent for all purposes connected with the administrative duties conducted through the central office in Washington.

> Thus all [postal savings] business charged to the Post Office Department is performed in the Division of Postal Savings under the immediate supervision of the Third Assistant Postmaster General as an officer of the Post Office Department, and all business of the Board of Trustees is performed through or by the same official, either in his capacity as secretary or as agent of the Board for the performance of certain specified duties.[3]

[3] *Annual Report Third Assistant Postmaster General,* 1913, p. 28.

Up to June 30, 1913, the employees of the central office of the postal savings system were paid out of a special fund appropriated for "establishing postal savings depositories." Beginning with the fiscal year 1914, however, the clerical positions in the Division of Postal Savings were made statutory, and the expenses of the division were made directly chargeable to the annual appropriation for the Post Office Department. At the time of the transfer of the Postal Savings System to the Bureau of the Third Assistant Postmaster General, a committee of Post Office Department officials was appointed for the purpose of making a study of the regulations, instructions, and forms in use by the postal savings system, and of recommending changes where they thought desirable. As a result of the committee's work many changes in procedure were drafted, some of the more important of which will be noted later.[4]

Depository Post Offices

The system was inaugurated in January and February, 1911, by the opening of one postal savings bank[5] in each state and territory. From that time forward the work of extending the system to other places proceeded rapidly. By the end of the fiscal year 1913 banks had been opened in 12,151 post offices, including all presidential offices and about 4,000 offices of the fourth class, also in 667 branches and stations. This fiscal year showed the high-water mark in the number of banks. The department had moved too fast in opening new banks, particularly in fourth-class post offices. It was pointed out by Representative William H. Stafford, of Wisconsin,[6] in congressional debate that of the 4,000 fourth-class post offices which had been previously designated as postal savings banks 3,000 either had no deposits at all or deposits of only one dollar. On the fee basis then used for compensating postmasters for their services in postal savings work, in

[4] *Infra*, p. 65 *et seq.*

[5] The postal savings laws and the official administrative orders, regulations, announcements, etc., with few exceptions, avoid the use of the term "bank" in referring to the post offices which receive postal savings deposits. A post office which receives such deposits is officially known as a postal savings depository, and a bank receiving postal savings funds on deposit from the postal savings system is known as a depository of postal savings funds. Fortunately the public need not follow these circumlocutions. In this paper a post office receiving deposits will be called a postal savings bank, and a banking institution receiving postal savings funds will be called a depository bank.

[6] *Congressional Record*, Dec. 15, 1913, p. 928.

these 3,000 offices the average compensation allowed was 27 cents a year.[7] Yet the auditors of the Post Office Department kept a separate account with each one of these offices, and monthly audits were frequent—all involving substantial expenses. During the fiscal year 1913-1914 postal savings functions were discontinued at 18 presidential offices, 2,753 fourth-class offices, and 8 branches and stations;[8] and at the end of the fiscal year 1916, the last date for which detailed figures are available, the total number of postal savings banks was 8,421, classified as follows:[9]

First-class post offices	531
Second-class post offices	2,064
Third-class post offices	4,252
Fourth-class post offices	854
Branch post offices	176
Post-office stations	544
	8,421

Notwithstanding the discontinuance of many postal savings banks in 1913-1914 and since, there are still a very large number of small and inactive banks. The annual report for the fiscal year 1915-1916 of the Board of Trustees gives for each city, town, and village having a postal savings bank, the amount of deposits held on June 30, 1916. An analysis of these figures made by the writer shows that 1,648 of the 8,421 postal savings banks had deposits of less than $100 each; and of this number 509 banks did not have a single dollar of deposits, 259 had only $1, 447 between $2 and $10, 299 between $11 and $25, and 581 between $26 and $99. These figures show that there is still ample room for the use of the pruning knife.

Depositors and Deposits

The provisions of the organic postal savings act concerning depositors and deposits conformed to the commoner practices in other countries. Accounts may be opened by any person ten

7 Representative Madden of Illinois, a member of the House Committee on Post Offices and Post Routes, *Cong. Rec.*, Dec. 10, 1913, p. 654.

8 A few of these changes were due to the discontinuance or the reclassification of the post offices. Some new banks were opened during the year, but notwithstanding this, the year showed a net reduction of 2,473 in their number, bringing the total down to 10,347. *Ann. Rep. 3d Assist. Postmaster Gen.*, 1914, p. 6.

9 *Ibid.*, 1916, p. 32. In January, 1914, the system was extended to Hawaii and Porto Rico.

years of age or over, but no person is permitted to have more than one account at one time. Deposits are receivable only in sums of a dollar or multiples of a dollar, provision being made, however, for the sale of postal savings cards for ten cents, which, when nine ten-cent postal savings stamps are pasted thereon, are receivable for one dollar. The original act limited the balance which any depositor could have to his credit (exclusive of accumulated interest) to $500, and limited the amount he could deposit in any one month to $100.

In the enactment of the postal savings law Congress left the decision as to the form in which the depositor's account should be kept to the discretion of the Board of Trustees. Chiefly for the purpose of keeping administrative expenses at a minimum, the board decided to use in place of the customary pass-book a simple form of certificate.[10] Aside from the limitation of the amount a depositor can have to his credit, there is no limit to the number of certificates he may hold.[11]

There is little that is noteworthy in the statutory provision concerning the withdrawal of deposited funds. Depositors are authorized to withdraw all or any part of their deposits, with accrued interest, upon demand, and under such regulations as the Board of Trustees may prescribe. The act of 1910 provided that the money for withdrawals was to be obtained by the local postal savings banks from the postal savings funds on deposit in the banks of the community in which the withdrawals were being made.

Nativity of depositors. The most striking fact in our six years experience with postal savings banks is the large extent to which they have been patronized by persons of foreign birth. The

10 On page 7 of the revised regulations which became effective July 1, 1913, these certificates are described as "non-transferable and non-negotiable certificates of deposit, to be supplied to postmasters in duplicate in fixed denominations of one, two, five, ten, twenty, fifty, and one hundred dollars, upon which shall be entered the name of the issuing office, the date of issue, the date on which interest begins, the name of the depositor, and the number of his account." On the back of each certificate is printed a ten-year interest table. There is furnished to each depositor an envelope, in which he may preserve his certificates. Upon this envelope is printed a certain amount of postal savings information, and a blank ledger for keeping account of deposits and withdrawals.

11 With each deposit, the depositor secures an additional certificate. As a matter of convenience to the depositor, however, the post office will exchange a certificate of large denomination for a number of certificates of small denominations.

American postal savings bank is to a large degree an immigrant's bank—a situation, so far as I have been able to learn, peculiar to the United States. Mr. Carter B. Keene, Director of the Division of Postal Savings, in an address before the Savings Bank Section of the American Bankers' Association on September 26, 1916, said that at that time 375,000, or 60 per cent of the total number of depositors, were born outside of the United States, and that this 60 per cent owned three quarters of all the deposits.[12] Moreover, the proportion of foreign born among the depositors is increasing. About three years before, only 36 per cent of the depositors were foreign born and this 36 per cent owned 51 per cent of the amount on deposit.[13]

Analysing the situation portrayed by these summary figures, one notices that some nationalities patronize the postal savings system much more extensively than others. The figures for the close of the fiscal year 1915 concerning the nativity of postal savings depositors[14] . . . are shown in column 1 of the table on page 52, of which columns 2 and 3, based upon the census figures for 1910—the latest available—have been added by the writer.

The last two figures in column 3 show that in proportion to population the deposits of the foreign born are about sixteen times as large as those of the native born. This comparison, however, involves the fallacy of an "age-selection" against the deposits by natives, since a much larger percentage of the foreign born than of the natives are 10 years of age or over and are therefore eligible to become depositors. This error in the crude figures may be largely estimated. The thirteenth census showed that about 75 per cent of the native whites were 10 years of age or over, and 97 per cent of the foreign born. Multiplying the crude figure 16 given above by 75/97 we arrive at 12.4 as the correct figure showing the number of dollars per capita deposited in postal savings banks by the foreign born above 9 years of age, to each dollar per capita deposited by the native born above 9 years of age.

Viewed by countries the figures show striking differences, the natives of Greece being well in the lead with a proportion of deposits 16.4 times as large as their proportion of the total popu-

12 *Commercial & Financial Chronicle,* A. B. A. Convention Supplement, Oct. 14, 1916, p. 192.

13 *Ibid.,* 1913, p. 195.

14 The figures are given, along with a large amount of other postal savings information, in a pamphlet issued by the Post Office Department in 1916, entitled *The United States Postal Savings System,* p. 6.

TABLE 1.—NATIVITY OF DEPOSITORS IN POSTAL SAVINGS BANKS.

Country of nativity	1 Percentage of total deposits made by natives of each country	2 Number and percentage of population of U. S. born in each country		3 Relative amount of deposits held by natives of each country in proportion to their percentage[1] of total population
		Number	Per cent	Per cent
		(000 omitted)		
Greece	1.8	101	0.11	16.4
Russia	20.7	1,732	1.86	11.1
Italy	14.2	1,343	1.44	9.9
Hungary	4.3	496	0.53	8.1
Austria	8.7	1,175	1.26	7.0
Sweden	2.2	665	0.71	3.1
Great Britain and colonies	8.8	3,768[2]	4.04	2.2
Germany	4.1	2,501	2.68	1.5
Other foreign countries	7.0	1,565	1.68	4.2
Total foreign countries	71.8	13,346	14.30	5.0
United States[3]	28.2	80,000	85.70	0.3

[1] The figures in this column are obtained by dividing the figures in column 1 by the percentage figures in column 2.

[2] Covers only Great Britain, Ireland, and Canada.

[3] Covers United States, Hawaii, and Porto Rico.

lation, Russia and Italy follow closely with proportions of 11.1 and 9.9 respectively, then comes Hungary with 8.1, and Austria with 7.0. The proportions for other countries fall far behind these figures.

Any satisfactory explanation of this situation would require a thoroughgoing investigation among the depositors themselves in the different communities most affected. With such evidence as is at present available, most of it coming from communications sent by postmasters and others to the Postal Savings Division at Washington, the best one can do is to name a few of the forces at work, without attempting to weigh them. Among these may be mentioned: (1) The distrust of non-government banks on the part of the foreign born population—a distrust easily understood when one bears in mind the extent to which our foreign born have

been robbed by persons (often of their own nationality) parading under the name "banker" or "bank." The exploitation of our thrifty foreign born population by many of our so-called "immigrant banks" has been a public disgrace.[15] Although considerable improvement has been made in recent years in the regulation of these institutions, the situation is still far from perfect, and the distrust among the foreign born engendered by the early abuses still persists. (2) A second reason is the democratic atmosphere which pervades most post offices, in contrast with the aristocratic one that pervades most banks. Moreover, comparatively few banks have made a reasonable effort to attract this class of our population, while the postal savings system has.[16] In receiving and sending letters and in transmitting money to their families or others in the homeland the foreign born are frequently brought to the post office. It would be rare that anything but the desire to deposit or withdraw money would bring the unskilled laborers among the foreign born to an American savings bank or commercial bank. Foreigners become familiar with the post office and not with the bank. (3) All of the first five countries in the list have postal savings banks, and immigrants from those countries have been familiar with such banks at home. (4) The European war through its interference with the ordinary means of sending small sums to Europe by international money orders and "immigrant banks," and through its depressing effect on the value of foreign moneys, has encouraged the foreign born to keep their savings in the United States.

Inasmuch as the avowed object of the establishment of postal savings banks in the United States was the encouragement of thrift, it is natural to ask: (1) How has the plan appealed to persons of different ages, and particularly how has it appealed to children, who represent the part of our population whose education in thrift would appear to be the most important? and (2) How has it appealed to our negro population, which, as a whole, and allowing for numerous worthy exceptions, is probably our most thriftless class?

[15] *Cf. Report of Immigration Commission, on Immigrant Banks,* Sen. Doc. No. 381, 61 Cong. 2. Sess., pp. 109-124.

[16] Circulars in 23 foreign languages explaining the postal savings system and its advantages have already been issued and widely distributed. These 23 foreign languages are designed to reach about 97 per cent of our entire foreign born population. *Third Assistant Postmaster General's Reports 1916,* p. 12.

Age grouping of depositors. No recent figures are available for the age grouping of depositors. An investigation of this subject, however, was made as of June 30, 1912, after the postal savings system had been in operation a year and a half. The result of that investigation has been furnished the writer by the Third Assistant Postmaster General, and is summarized in the following table, the last two columns of which have been added by the writer.

TABLE 2.

NUMBER AND PERCENTAGE OF DEPOSITORS, JUNE 30, 1912, BY AGE GROUPS.

1 Age groups	2 Number	3 Per cent	4 Per cent of total population above nine years of age in age group in 1910	5 Ratio of percentage of depositors above nine years of age in age group to percentage of total population above nine years of age in age group
10-14 years	25,108	10.3	12.7	.81
15-19 "	20,703	8.5	12.6	.67
20-24 "	32,529	13.3	12.6	1.06
25-34 "	70,672	29.0	21.1	1.37
35-44 "	45,488	18.7	16.2	1.15
45-64 "	40,977	16.8	18.7	.90
65 years and over	7,987	3.3	5.8	.57
Unknown	337	0.1	0.3	
Total	243,801	100.0	100.0	

The table shows that children from 10 to 14 years of age constitute about four fifths as large a percentage of the depositors as they do of the country's total population over 9 years of age; while persons from 15 to 19 years of age constitute about two thirds as large a percentage. The facts are considerably more favorable to children depositors than the figures show. This is true, first, because of the fact previously noted that there is a very small percentage of children among our foreign born population which constitutes much over half of the postal savings depositors, and second, because the postal-savings-bank stamp cards and stamps, representing savings of less than a dollar, are probably used mostly by children, and the savings represented by outstanding cards belonging to persons who have not yet opened their accounts do not figure in the records.[17]

[17] This item would be too small to be worthy of mention were it not for the fact that a very large percentage of the persons who figure in the statistics as depositors have deposits of only one dollar.

The table shows emphatically that it is among the middle age groups that postal savings are most popular, the three age groups 25-34, 35-44, and 20-24, in their order, showing the largest proportions of depositors to the total population in the respective age groups.

Negro depositors. The colored population, although it lives chiefly in the sections of the country where non-governmental bank facilities are relatively lacking, has made little use of the postal savings system. As in the case of the age grouping of depositors, the only available statistics as to color grouping relate to June 30, 1912. At that time the total number of depositors was 243,-801 and they were grouped as follows:

White	239,128
American negroes	4,006
Other negroes	456
American Indians	12
Chinese	23
Japanese	134
Other non-whites	42
Total	243,801

This gives the whites 98.1 per cent of the total, and the American negroes 1.6 per cent, whereas their respective percentages in the total population in 1910 were 88.8 and 10.7. Evidently the postal savings system is accomplishing practically nothing in reaching the negro population. This would appear to be a particularly important field for it to cultivate.

Geographic Distribution of Deposits and Depositors

Closely related to the subject of the character of the depositors is that of their geographic distribution. In fact, when one says that the bulk of the depositors are foreign born, names the nationalities that preponderate, and says there are few negro depositors, he has to a large extent answered the question of their geographic distribution, and has said that they come largely from the cities of the industrial communities. A further analysis of this situation, however, is justified by its importance. Table 3 on page 57 and the following map (Map I) show the distribution by states. Briefly summarized the facts are as follows:

Distribution of depositors. Taking the country as a whole there was one depositor on June 30, 1916, to every 153 of the

Map I.—Number of Population to Each Postal Savings Depositor in the United States, June 30, 1916.

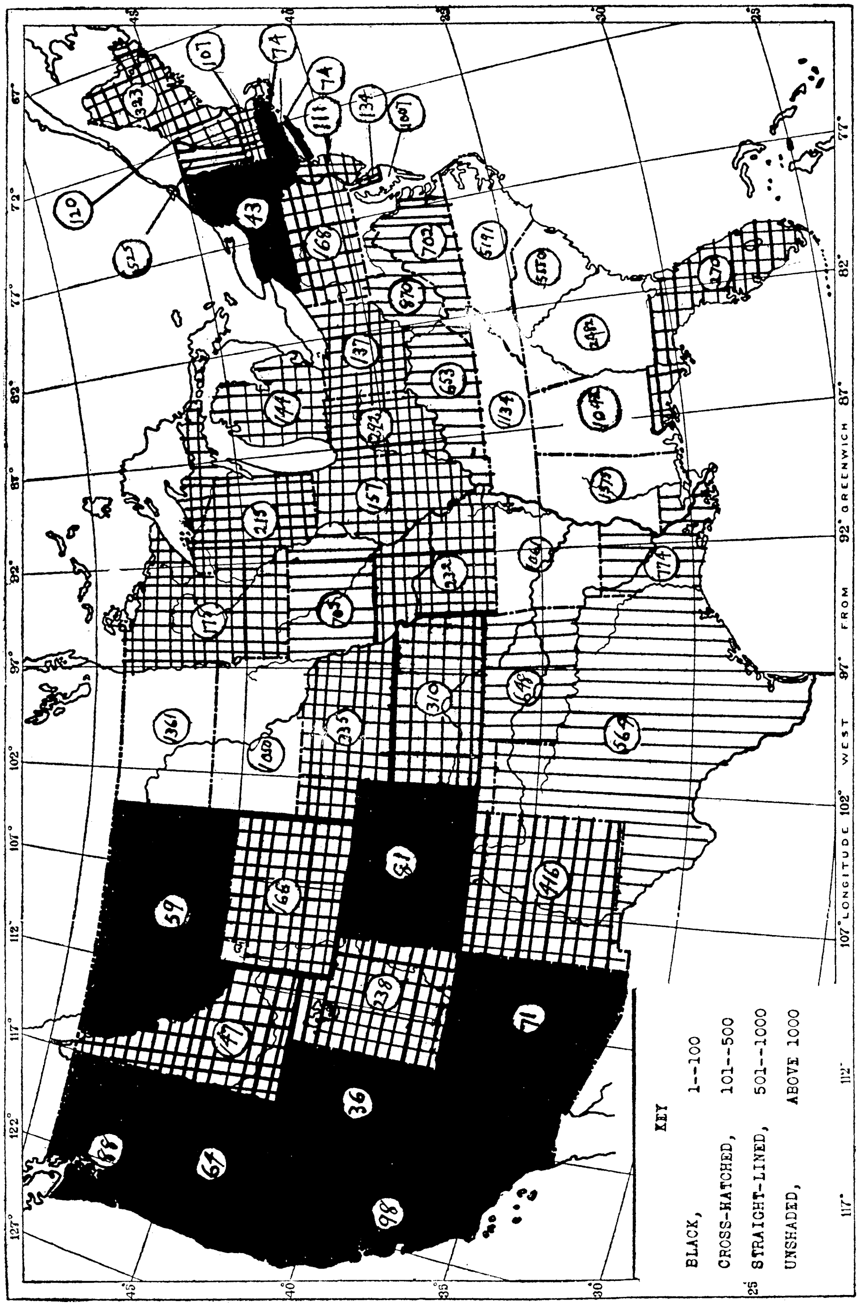


TABLE 3.—STATISTICS OF POSTAL SAVINGS BY STATES, JUNE 30, 1916.[1]

States and territories	Population: census of 1910	Savings banks		Depositors		Deposits	
		Number of banks	Population per bank	Number of depositors	Population per depositor	Amount	Per capita: census of 1910
	(000 omitted)					(000 omitted)	
Alabama	2,138	92	23,240	2,051	1,042	$222	$0.10
Alaska	64	8	8,000	224	286	36	0.56
Arizona	204	36	5,667	2,861	71	605	2.97
Arkansas	1,574	102	15,300	1,484	1,061	229	0.14
California	2,377	310	7,670	24,224	98	3,836	1.61
Colorado	799	130	6,150	9,917	81	1,652	2.07
Connecticut	1,115	125	8,920	15,057	74	1,934	1.73
Delaware	202	22	9,180	1,510	134	173	0.86
D. of Columbia	331	9	3,680	2,723	122	373	1.13
Florida	753	85	8,860	3,277	270	364	0.48
Georgia	2,609	91	28,700	1,051	2,482	122	0.05
Hawaii	192	10	19,200	409	469	38	0.20
Idaho	326	84	3,880	2,215	147	381	1.17
Illinois	5,639	486	11,600	35 979	157	5,992	1.06
Indiana	2,701	292	9,250	9,251	292	1,377	0.51
Iowa	2,225	268	8,300	3,155	705	527	0.24
Kansas	1,691	298	5,670	5,451	310	741	0.44
Kentucky	2,290	140	16,400	3,509	653	439	0.19
Louisiana	1,656	79	21,000	2,139	774	292	0.18
Maine	742	113	6,570	2,300	323	294	0.40
Maryland	1,295	63	20,600	1,286	1,007	171	0.13
Massachusetts	3,366	296	11,400	31,558	107	3,995	1.19
Michigan	2,810	339	8,290	19 455	144	3,200	1.14
Minnesota	2,076	265	7,830	11,852	175	1,951	0 94
Mississippi	1,797	97	18,530	1,141	1,575	140	0.08
Missouri	3,293	329	10,000	14,177	232	2,137	0.65
Montana	376	85	4,420	6,389	59	1,306	3.47
Nebraska	1,192	216	5,520	3,556	335	430	0.36
Nevada	82	27	3,040	2,290	36	440	5.37
New Hampshire	431	70	6,160	3,578	120	430	1.00
New Jersey	2,537	200	12,700	22,762	111	2,806	1.11
New Mexico	327	47	6,960	733	416	112	0.34
New York	9,114	632	14,400	211,007	43	27,608	3.04
North Carolina	2,206	83	26,600	425	5,191	46	0.02
North Dakota	577	96	6,010	424	1,361	41	0.07
Ohio	4,767	447	10,660	34,834	137	5,477	1.15
Oklahoma	1,657	200	8,290	2,556	648	322	0.19
Oregon	673	134	5,020	10,472	64	1,558	2.31
Pennsylvania	7,665	566	13,500	45 579	168	7,108	0.93
Porto Rico	1,118	44	25,400	1 770	632	76	0.07
Rhode Island	543	41	13,240	7,370	74	796	1.47
South Carolina	1,515	35	43,300	273	5,550	26	0.02
South Dakota	584	114	5,124	556	1.050	75	0.13
Tennessee	2,185	95	23.000	1,927	1,134	261	0.12
Texas	3,897	357	10,920	6,908	564	770	0.20
Utah	373	35	10.660	1,570	238	297	0.80
Vermont	356	56	6.360	678	525	98	0.27
Virginia	2,062	111	18,570	2,935	702	363	0.18
Washington	1,142	165	6,920	12,963	88	2,119	1.86
West Virginia	1,221	79	15 460	1,404	870	252	0.21
Wisconsin	2,334	284	8,220	10,843	215	1,812	0.78
Wyoming	146	33	4 425	879	166	168	1.15
Total	91,972	7,701	11,940	602,937	153	86,020	0.94

[1] The table has been compiled from data obtained from the annual reports of the Third Assistant Postmaster General, and of the Board of Trustees of

population (using the census figures for 1910); but the proportion of depositors to the total population showed wide differences in different sections, varying from one depositor to every 36 of the population in Nevada to one to every 5,550 in South Carolina. There are ten states in which one per cent or over of the population are postal savings depositors, and these comprise a solid border of five states in the extreme western part of the country, the near-by states of Montana and Colorado, and three states in the East (New York, Connecticut, and Rhode Island). At the other extreme are ten states in which less than one tenth of one per cent of the population are postal savings depositors, and all of these states with the exception of the two Dakotas are south of the Mason and Dixon line, and, with the further exception of Arkansas, are east of the Mississippi River.

Distribution of deposits by states. The distribution of postal savings deposits by states at the end of the fiscal year 1916 is very similar to that of depositors. The table points to the following conclusions:

(1) The great bulk of the deposits are in comparatively few states. In only eight of the fifty-two states and other geographic districts mentioned did the total deposits exceed $2,500,000; and these eight states (which in their order were New York, Pennsylvania, Illinois, Ohio, Massachusetts, California, Michigan, and New Jersey) held 70 per cent of the total deposits, the first four holding 54 per cent of the total.

(2) Viewed from the standpoint of amount on deposit in proportion to population there is a striking difference in different sections of the country. The amount on deposit per capita varied from $5.37 for Nevada to less than two cents for South Carolina.

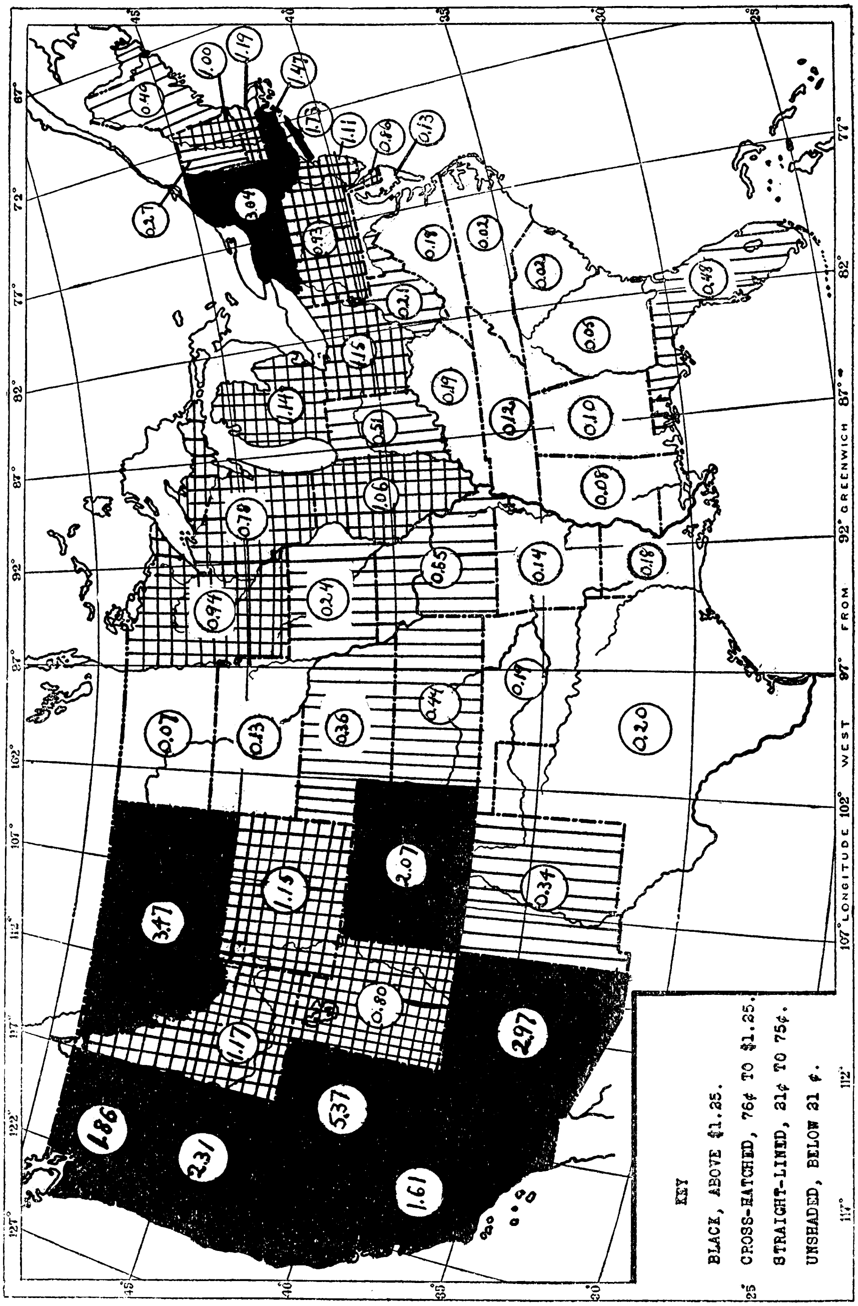
On the following map (Map II) the states (territories, etc.) are classified into four groups according to their per capita deposits on June 30, 1916. The groups are:

I.	Per	capita	deposits	above $1.25.
II.	"	"	"	between 76 cents and $1.25.
III.	"	"	"	between 21 cents and 75 cents.
IV.	"	"	"	below 21 cents.

In general it is in the southern states that the per capita deposits are smallest, and in the mining and lumbering states of

the Postal Savings System, also from the United States census reports. It is a cause of regret that the absence of satisfactory population figures for a later year than 1910 makes necessary the use of the census figures for 1910 in comparison with the postal savings figures for 1916.

Map II.—Per Capita Deposits in Postal Savings Banks, June 30, 1916.



the West, together with the manufacturing states of the East, that they are largest. The population of the Dakotas make scant use of the postal savings banks.

Distribution of deposits by cities. Passing from the distribution of deposits by states to that by cities and towns, we find figures published by the Third Assistant Postmaster General for the places having deposits of over $100,000 on June 30, 1916. These places were seventy-six in number.[18] According to the census of 1910, they had a population of 20.6 millions, or 22 per cent of the total population of the country. They had, however, 397,776 postal savings depositors, or 66 per cent of the total; and these depositors had to their credit $57.3 millions, or 67 per cent of the total deposits. Analyzing the figures by cities and limiting ourselves to cities with total deposits of over $200,000, we find the first fifteen cities ranked in the order of their per capita deposits as follows:

Rank	City	Population[19]	Per capita deposits
		(000 omitted)	
1	Leadville, Col.	8	$33.75
2	Butte, Mont.	42	19.93
3	Ironwood, Mich.	13	17.10
4	Pueblo, Col.	51	5.29
5	New York City	5,334	4.61
6	Tacoma, Wash.	103	4.32
7	Portland, Oreg.	260	4.08
8	Akron, O.	80	3.94
9	Detroit, Mich.	546	3.41
10	Toledo, O.	184	3.40
11	Bridgeport, Conn.	116	3.39
12	St. Paul, Minn.	237	3.20
13	Columbus, O.	205	3.14
14	Kansas City, Mo.	285	2.76
15	Duluth, Minn.	89	2.73

Some of the cities and towns whose total deposits are less than

[18] Brooklyn and Long Island City, I have included in New York City, although they are given separately in the government figures. See *Ann. Rep. 3d Assist. Postmaster Gen.*, 1916, p. 35.

[19] The populations used in compiling these per capita figures were in each case those for the latest date for which official estimates were available, and this means for all the cities except Leadville, Col., and Ironwood, Mich., the populations as of June 30, 1914; for the latter two cities the figures are for the census year 1910.

$200,000 have very large per capita deposits. Among these the following may be mentioned:

Rank	City or town	Population in 1910[20]	Per capita deposits
		(000 omitted)	
1	Roslyn, Wash.	3.1	$40.72
2	Bisbee, Ariz.	9.0	21.48
3	Globe, Ariz.	7.1	14.18
4	Franklin, Pa.	9.8	13.97
5	Astoria, Ariz.	9.6	13.96
6	Barberton, O.	9.4	12.41
7	Hibbing, Minn.	8.8	12.34
8	Anaconda, Mont.	10.1	11.86
9	McKees Rocks, Pa.	14.7	11.36
10	Gary, Ind.	16.8	11.28

It is obviously to the small mining and industrial towns with their large foreign born populations that the postal savings system is rendering its greatest service.

Sizes of Individual Deposits and Deposit Balances and Sources from Which Drawn

It has already been mentioned that the Postal Savings act of 1910 limited the balance that any depositor could have (exclusive of interest) to $500, and limited the amount which he could deposit in any one calendar month to $100. These restrictions were made chiefly with a view to lessening the danger, which the banking interests so greatly feared, that the postal savings depositories would attract money away from the banks. With these restrictions in mind, we may consider the sizes of individual deposits and deposit balances and the sources from which they have been drawn.

Sizes of deposit balances. The Post Office Department publishes no figures showing the grouping of deposit balances according to size—information which it is desirable that the official statistics should furnish; but from its published statements a small amount of light on the sizes of individual balances can be gained. The average size of the deposit balances at the end of each of the six fiscal years during which the system has been in operation was as follows:

[20] Doubtless some of these places have had important changes in their population figures since the census of 1910; and the actual population figures for June 30, 1916, if available, would show in some cases, materially different per capita figures.

1911	$ 57
1912	83
1913	102
1914	112
1915	125
1916	143

While this shows a healthy increase in the average balance, it throws little light upon the sizes of the items that make up these averages. Third Assistant Postmaster General Dockery said December 4, 1915: "We have now more than 30,000 depositors who have reached the limit—who have deposited all they are permitted to deposit under the postal savings law—and 22,000 of the 30,000 who have reached the limit of deposits are foreign born."[21] This was exclusive of the deposits which had been withdrawn for investment in $2\frac{1}{2}$ per cent postal savings bonds. On the other hand, the fact previously noted[22]—that on June 30, 1916, there were 259 postal savings banks having only one dollar each, and 447 whose deposits ranged between $2 and $10—is evidence of a large number of petty accounts.

Sources from which funds deposited are withdrawn. From the earliest agitation for a postal savings system in the United States the debate over the advisability of such a system has centered largely in the question of the sources from which postal savings deposits would be derived. Bankers, as we have seen, almost unanimously opposed postal savings banks because they feared that the funds for postal savings deposits would be withdrawn or diverted from the banks, as they had been to some extent in Great Britain during the early days of the British postal savings banks. The proponents, on the other hand, had claimed that the funds would come chiefly from hoards, from increased savings, and from the deposit of funds which otherwise would be sent by the foreign born to the banks of Europe. Obviously it is impossible to describe in any quantitative way the sources from which the deposits have come. That is a topic of information which postal savings bank depositors—a proverbially distrustful class—naturally guard jealously. Such information as we have on the subject comes chiefly from the direct observations of postmasters and others actively engaged in the administration of the postal savings system, and from the testimony of bankers themselves as to the

[21] *The United States Postal Savings System, op. cit.*, p. 8.
[22] Page 49.

competition which they have experienced from postal savings banks.

In the first place it may be said that there is no evidence whatever that the postal savings system has to any appreciable extent proven a competitor of the banks. On the contrary it has been a feeder for the banks, and has proven a positive influence for the encouragement of thrift, in the interest of which the American Bankers' Association has for some time been conducting a vigorous and well-organized campaign. This fact has of late been generally admitted by the very bankers who formerly opposed the establishment of the postal savings system. For example, Mr. Edward L. Robinson, vice-president of the Eutaw Savings Bank of Baltimore, and chairman of the Committee on Postal Savings Bank Legislation of the Savings Bank Section of the American Bankers' Association, in a recent address before the Savings Bank Section of the American Bankers' Association, after referring to the "almost unbroken front of opposition from the banking interests" to postal savings legislation prior to 1910, said: "[After the system had gone into operation] it was at once evident that the system was not invading the territory occupied by other banks, but was actually drawing money out of hiding places and was making a strong and successful appeal, as was predicted, to the distrustful foreign element."[23]

Mr. Carter B. Keene, Director of Postal Savings, informs me that the opinion of postmasters throughout the country, as revealed by their letters and reports, is almost unanimous in the conclusion that the great bulk of the deposits come from hoards, and from funds that formerly were sent abroad for deposit in the postal savings banks and other banks of Europe. The tarnished condition of much of the coin deposited, and the receptacles in which the money is brought for deposit, show that much of it has been buried or otherwise hoarded for long periods. Director Keene said in an address before the American Bankers' Association Convention in Boston in October, 1913:

> A systematic canvass was once made by the Department to ascertain where the postal savings deposits were coming from, and no depositor was found who had transferred his account under normal conditions from a bank to the post office. On the contrary our files are full of reports from postmasters who explain the falling off of deposits by the fact that accounts are being transferred to local banks, and letters from bankers urging the extension of the service to points where they

are unable to reach hoarded savings are now too frequent to occasion comment. The postal savings system is a fitting school for other savings institutions. Our depositors are at first more concerned for the security of their savings than in what they may earn. They are thinking of the principal not the interest, and it is only after they have learned the rudiments of saving that the interest feature attracts them. . . . The banks then get the accounts.[24]

Concerning the inroads made by the postal savings system into the former expensive practice of buying money orders payable to one's self as a means of securing government custody for savings, Third Assistant Postmaster General Dockery said in his annual report for 1915:

The use of the postal money-order service for savings purposes, in the absence of a postal savings system in this country, was quite general in the years preceding 1911, it having been ascertained that the value of money orders so purchased at first and second class offices during 12 months prior to March 1, 1908, was in excess of $8,000,000. These investments were made solely because of the security afforded moneys so intrusted to the government. With the establishment of the postal savings system......the money orders purchased for savings purposes were gradually cashed and the use of the money-order service for this purpose thereafter was negligible.[25]

In this connection the experience of six years of postal savings should be described with reference to the fear early expressed that the existence of postal savings banks would encourage runs on the banks in times of great financial distrust.[26] With such depositories for the safe keeping of money everywhere available, it was urged, the timid would withdraw their deposits from banks on the slightest provocation and deposit them at the post offices. Since the enactment of the postal savings law there has been no national financial crisis of a character to put this question to a severe test. The crisis of August, 1914, was not one that reached the masses of the people. Up to date there have been very few instances recorded in which money has been withdrawn in any considerable amount from banks, in time of stress, for deposit in postal savings banks; and most of these instances occurred in towns where confidence in local banks was dealt a blow by the

24 *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., Oct. 18, 1913, p. 195.

25 *Report*, p. 15. It was also pointed out that postal savings depositors whose balances had reached the limit of $500, fixed by the law in 1910, were again resorting to this device for entrusting their savings to the government.

26 *Cf.* Kemmerer, "The United States Postal Savings Bank," in *Political Science Quarterly*, vol. XXVI (1911), pp. 497-498.

failure of one of their number. Four cases of this kind were described in a statement prepared by the Post Office Department and printed in the *Congressional Record* of December 15, 1913.[27] The cities were Ironwood, Mich., Lowell, Mass., McKeesport, Pa., and Pittsburgh, Pa. It will be sufficient to quote from the description of the last case, which was typical.

The First-Second National Bank of Pittsburgh, Pa., was closed on July 7, 1913. The postal savings receipts for the week beginning on the day of the failure was $19,624, a larger sum than had been deposited in an entire month. The postmaster, in commenting on the situation July 17, said: "Very many of the depositors wanted to leave large sums, ranging from $1,000 to $9,000. Some persons who came to the office when they learned that only $100 could be accepted did not open an account. While no record was kept of the amount offered and refused, there is no doubt but what the aggregate was in excess of $100,000."

Cases were also reported of two bank runs which led to a considerable offering of funds at the postal savings banks. One was in Youngstown, Ohio, in August, 1913, and the other was the case of the United States Trust Company in Washington, D. C., November 21, 1913. This last run lasted from noon of one day till noon of the next. "During the six days prior to the run 30 postal savings accounts were opened in the Washington post office and $3,413 was received. In five days after the run 147 accounts were opened and $15,650 was received, and during this period $24,261 was rejected on account of the monthly limitation."[28]

In all of the above instances of the withdrawal of funds from local banks the money withdrawn was immediately redeposited by the postmaster in local banks, and in most, if not all, of the cases, existing local depository banks for postal savings funds already had deposited with the government a sufficient margin of collateral to qualify at once for the new deposits.

Limitations on the size of deposits and deposit balances. This brings us to the question which has given rise to the most discussion since the enactment of the law of 1910: *viz.*, that of the desirability of raising or removing entirely the limitations imposed upon the amount that can be deposited by a depositor in any one month, and upon the total balance which a depositor may have to his credit. In harmony with the practices in many other coun-

[27] Pp. 926-927.
[28] *Ibid.*, p. 927.

tries and with the wishes of the banking community, narrow limitations were imposed by the act of 1910: *viz.*, $100 as the maximum amount that could be deposited by any depositor in a month, and $500 and accumulated interest as the maximum balance which a depositor could have.

These limitations soon proved to be onerous and a number of bills were early introduced in Congress looking toward lightening them. The first of these bills to come into prominence was the Moon bill[29] which contained provisions amending the organic postal savings act in a number of important particulars, one of which—the most controverted one—was concerned with changes in these limitations. The bill as originally introduced provided for the removal of all limitations upon the amount that any person could deposit in a postal savings bank at any time and upon the balance he might have to his credit, but limited the amount upon which he could draw interest to a maximum of $1,000. The privilege of making non-interest-bearing deposits in postal savings banks, in unlimited sums, above the maximum upon which interest is allowed, is granted in a number of countries, notably Italy, Sweden, the Netherlands and its colonies, and the Philippines.[30] The Moon bill took the course through Congress usually taken by important bills which ultimately receive congressional approval. It was debated at intervals from December 15, 1913, to August 28, 1914, was amended in the House and in the Senate, referred to a conference committee by which the differences were compromised, and was finally passed by Congress at the end of August. In its final form the bill removed the limitations on the amount that could be deposited by a person in any month, left the maximum interest-bearing deposit $500, and authorized the Board of Trustees in its discretion to "accept additional deposits not to exceed in the aggregate $500 for each depositor, but upon which no interest shall be paid." The bill was sent to the President for his signature September 1, but was vetoed by him because of one of its provisions authorizing the deposit of postal savings funds in banks not members of the federal reserve system. "With most of the provisions of the bill," the President in his veto message declared himself "in hearty accord."[31]

[29] H. R. 7967 of the 63d Congress, introduced September 6, 1913, by Representative Moon, of Virginia.

[30] In Belgium there is no limit to the amount which can be kept on deposit, at interest, but when the deposit balance exceeds 3000 francs the interest rate on the whole balance is reduced from 3 per cent to 2 per cent.

[31] House Doc. No. 1162, 63 Cong., 2 Sess. This document contains the bill and the President's veto message. *Cf. infra*, p. 81.

Inasmuch as two years later legislation providing for the lightening of the restrictions upon postal savings deposits was passed, and as the chief debate over the question of policy occurred in connection with the vetoed bill, it will be well to summarize briefly at this point the arguments advanced, during the various congressional debates (1913-1916), on both sides of the question.

Arguments for lightening limitations on deposits. The chief arguments advanced in favor of the change were as follows:

1. The presumption is in favor of freedom from artificial restrictions in such a matter as permitting the public to deposit its savings in any legally authorized and safe agency for receiving deposits. In the original legislation the restrictions were imposed to protect banks from what many feared would prove a dangerous competition when the postal savings banks were opened. The fact that experience showed that the bulk of the postal savings deposits had come out of hoards and from persons who were not depositors at all in the regular banks made it clear that the *raison d'être* of the limitations was not a sound one, and that they should be removed, or, at least, greatly lightened. It may be pointed out in this connection that there are usually no legislative limitations on the size of interest-bearing savings accounts in commercial banks, and that the few such limitations which existed in the case of mutual and stock savings banks during the period of this controversy were more liberal than the existing postal savings act, and, with the exception of Massachusetts, were more liberal than those proposed in the original Moon bill.[32]

2. The second argument was that the restrictions were not only resulting in the keeping in hoards of the millions of dollars of savings of postal savings depositors which were in excess of the $500 maximum, but also of many millions more representing the savings of persons who would deposit nothing in the postal savings banks if they could not deposit all. It has been previously pointed out that in 1915 more than 30,000 depositors had reached the $500 limit, and that of this number 22,000 were foreign born. The Postmaster General said in his annual report for 1913: "A conservative estimate indicates that more money has been refused by the postal savings system than has been ac-

[32] A table showing by states the statutory restrictions on the amount that savings banks may receive from depositors is published in the *Congressional Record* for August 28, 1914, p. 14,382. Of the 48 states (and the District of Columbia) 36 had no restrictions whatever, and three of the other states merely authorized the banks to impose restrictions if they should desire.

cepted."[33] Director Reed of the Postal Savings System in 1913 stated it as his belief that not less than $30,000,000 in postal savings deposits had been turned away because of the $500 limit. "Sums as large as $25,000," said Director Reed, "have been brought to us in old tea kettles, stockings, and what not else in the way of queer receptacles, and when we had to refuse to receive more than $500 it went back into the nooks and corners, cellars, and underground, where it came from."[34] Third Assistant Postmaster General Dockery told the writer that it was the testimony of postmasters throughout the country, over and over again, that if a foreigner could not deposit his entire savings at once he commonly refused to deposit any.[35]

3. A third argument related to the expenses of administering the system. During the first two years the postal savings system was run at a heavy loss to the government—a loss computed at about $1,000,000 down to December, 1913;[36] but since that time the records of the system have shown a net profit for each year. The Post Office Department took the position that if the limitations on deposits could be removed or greatly lightened, and particularly if non-interest-bearing deposits could be authorized, the deposits would be greatly increased, to the great relief of the deficit.

Arguments against removal or lightening of restrictions on deposits:

1. During the debates in Congress concerning alterations in the restrictions on postal savings deposits, the argument in the opposition that played the chief role—an argument which underlay many of the others—was that the changes proposed would make the postal savings system a stronger competitor of existing banks. There was a great deal of opposition on the part of bankers for this reason, and the banking community made its opposition felt in Washington.

It was claimed that, even if the postal savings system had not proven a competitor to the banks under the existing limitations on deposits, it did not follow at all that it would not prove a competitor when the limitations were lightened or removed. Senator Weeks, of Massachusetts, feared that the raising of the

33 Page 27.

34 Quoted in the *New York Evening Post,* Feb. 13, 1913.

35 *Cf.* on this subject *The United States Savings System, op. cit.,* pp. 41-51.

36 *Cong. Rec.,* Dec. 15, 1913, p. 923.

limits would put the postal savings system into competition with the mutual savings banks of the East,[37] and Senator Lodge, of Massachusetts, thought that the proposals were a move in the direction of putting the government into competition with the banks in the savings bank business.[38] Senator Gallinger, of New Hampshire, had received letters from officials of the savings banks in his state making a very earnest protest against the House proposal that there should be no limit on non-interest-bearing deposits.[39]

2. A second objection was the claim that the raising of the deposit limit and particularly the allowance of large or unlimited non-interest-bearing deposits would open the door to the fraudulent evasion of debts and taxes. According to a decision of the Attorney General's Office, deposits in postal savings banks are exempt from attachment and execution for debt. In December, 1915, and during the consideration of the bill to raise the limit of interest-bearing deposits to $1,000 and to authorize non-interest-bearing deposits up to another thousand dollars, Representative Steenerson, of Minnesota, drew a picture of a man with a wife and five or six children over ten years of age, each depositing $2,000 in the postal savings bank, and escaping creditors to the total amount deposited.[40] He raised the question as to whether a lower limit than the one proposed should not be fixed for minors, but did not urge the point for he admitted that the evidence so far available was that minors were not using the postal savings banks very extensively, and that comparatively few of them who did use it would have deposits of over $1,000. Senator Smoot, of Utah, in the course of debate on the earlier bill, said there was one class of people who would go to the limit of $2,000. "I have received a number of letters," he said, "stating that there were people who used the postal savings banks, depositing their money in the post offices of the country, with the purpose of preventing the money from being garnisheed; . . . and they felt perfectly safe about keeping it from their creditors."[41] Senator Sherman, of Illinois, said that he also had received many complaints on this subject from a great variety of people.[42]

Postal savings deposits, being debts of the United States gov-

[37] *Cong. Rec.*, April 14, 1914, p. 6672.

[38] *Ibid.*, April 15, 1914, p. 6727.

[39] *Ibid.*, April 14, p. 6670; and April 15, p. 6725.

[40] *Ibid.*, Dec. 17, 1915, p. 433; and Jan. 6, 1916, p. 618.

[41] *Ibid.*, April 27, 1914, p. 7303.

[42] *Ibid.*, April 27, 1914, p. 7303.

ernment, are exempt from taxation under section 3701 of the revised statutes which provides that "all stocks, bonds, treasury notes, and other obligations of the United States shall be exempt from taxation by or under state or municipal or local authority." Senator Hitchcock, of Nebraska, thought that the bill, if passed, would encourage tax dodging through the withdrawal of money from ordinary banks just before assessment day and its temporary deposit in postal savings banks.[43]

The tax-dodging argument apparently did not make a very strong appeal. The facts that the interest rate proposed to be paid by the government was but 2 per cent on the first thousand dollars, and nil on the second, the proposed limitation to $2,000 on the total amount that could be deposited, the ease with which a would-be tax dodger could dodge taxes on cash funds without recourse to postal savings deposits, and the fact that federal, state, and city bonds paying higher interest rates than postal savings deposits were exempt from taxation—all of these facts weakened decidedly the appeal of the tax-dodging argument.

As to the argument that the raising of the deposit limits would encourage evasion of debt, the proponents of the higher deposit limit argued that there had been very little evidence of such evasion under the old limits, and that the new ones were not high enough to make the danger a serious one. Furthermore, said Senator Bryan, of Florida, who was sponsor for the bill in the Senate, the question of whether the additional deposits authorized by the proposed legislation should be exempted from attachment for debt and from taxation is a separate question to be considered by itself.[44] Such rights of exemption were not an essential part of the proposal to raise the deposit limits.

3. A third argument in opposition was urged by Senator Weeks, of Massachusetts. It may best be stated in his own words:

> I feel perfectly sure that if this is undertaken you will see men from time to time dropping into the country post office and depositing their money where the postmaster has no facilities for caring for it, having no safe or any other means of protecting deposits...... [They will do so] not for the purpose of saving the money, not for the purpose of getting interest on it, but simply for the purpose of leaving it there for safe keeping until it is wanted.[45]

These were the only arguments worthy of mention advanced

43 *Cong. Rec.*, April 27, 1914, p. 7304.

44 *Ibid.*, April 28, 1914, p. 7360.

45 *Ibid.*, April 27, 1914, p. 7302.

in the Sixty-third and Sixty-fourth Congresses, on either side of the broad question of raising the deposit limits.

Limits on deposits raised in 1916. As previously noted, the veto by President Wilson of the postal savings bill of 1913-1914 (H. R. 7967) had no reference to the provisions of the bill raising the limits on deposits. In the next session of Congress a new bill providing for the raising of the limits was introduced by Representative Moon. By this time the Postal Savings Bank Legislative Committee of the Savings Bank Section of the American Bankers' Association had withdrawn its opposition to the legislation.[46] With the bankers' organized opposition removed, the proposed legislation had fairly clear sailing, and the bill (H. R. 562) became law by the signature of the President on May 18, 1916. The new act repealed the provision of the organic law which imposed a limit of $100 on the amount that could be deposited in one calendar month, raised the interest-bearing limit from $500 to $1,000, and provided "that the Board of Trustees may, in their discretion, and under such regulations as such Board may promulgate, accept additional deposits not to exceed in the aggregate $1,000 for each depositor, but upon which no interest shall be paid."

Notwithstanding the efforts that were made by the post office authorities to have this latter permissive legislation passed, and the strong case that was made in its favor, the Board of Trustees have not yet seen fit to exercise the authority therein granted to receive non-interest-bearing deposits up to $1,000. The writer has been unable to obtain any official explanation of their inaction. Director Keene of the Division of Postal Savings, referring to the matter in an address at the American Bankers' Association Convention, September 26, 1916, merely said, "The Board of Trustees has not thus far accepted the non-interest-bearing accounts."[47]

[46] The Committee reported to the Savings Bank Section of the American Bankers' Association, September 7, 1915: "It is understood that the Sixty-fourth Congress will enact legislation raising the limit of interest-bearing deposits to $1,000 and giving discretionary powers to the Board of Trustees to accept an additional $1,000 without interest. From the knowledge acquired by your committee in its efforts to have the original Moon bill amended, and from a frank interchange of views with the Director of the Postal Savings System, we feel that the desire of the Trustees for this increase of authority is not unreasonable and will not work any hardship upon our savings banks. . ." *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., Sept. 18, 1915, p. 181.

[47] *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., Oct. 14, 1916, pp. 191-192.

The Third Assistant Postmaster General in his annual report for 1916 (dated September 30), after saying that the previous limitations "greatly retarded the growth of the system and restricted the scope of its usefulness," refers to the amendment as follows:

By the terms of the amendment a person may now deposit any number of dollars, and at any time, until the balance to his credit amounts to $1,000. The effect of the liberalizing legislation was an immediate and pronounced increase in postal savings deposits. As the advantages of the new law become known the accumulated hidden savings of the country flow to the postal banks and are there restored to the circulating medium.[48]

In its annual report dated December 1, 1916, the Board of Trustees use almost the same language. Both reports strangely ignore the question of receiving non-interest-bearing deposits.

Growth of deposits. Since the inauguration of the postal savings system on January 3, 1911, the growth of deposits has been continuous, and this growth (as just noted) has recently been stimulated by the raising of the limitations and by conditions created by the European war. Laborers in the United States have been very prosperous during the past two and a half years, and the situation in Europe has not been favorable to the sending of money across the water for safe keeping. The following figures show the balances on deposit in the postal savings banks at the end of the fiscal year since the system was inaugurated, and the balance for November 10, 1916—the latest date for which figures are available.

TABLE 4.—GROWTH OF POSTAL SAVINGS DEPOSITS, 1911-1916.

Fiscal year ending June 30	Amount	Percentage increase over preceding date
	(000 omitted)	
1911	677[1]	2900
1912	20,237	67
1913	33,819	28
1914	43,444	51
1915	65,685	31
1916	86,020	26
Nov. 30, 1916[2]	108,500	

[1] Six months only.
[2] Five months only.

Interest paid on postal savings deposits. The act of 1910 provided (section 7) that "interest at the rate of two per centum

[48] *Ann. Rept. 3d Assist. Postmaster Gen.*, 1916, p. 7.

per annum shall be allowed and entered to the credit of each depositor once in each year, the same to be computed on such basis and under such rules and regulations as the Board of Trustees may prescribe; but interest shall not be computed or allowed on fractions of a dollar." Although interest rates prior to the European war ruled higher in the United States than in most advanced countries, this rate of 2 per cent is the lowest one to be found in any postal savings system in the world.

In framing rules and regulations concerning the payment of interest to depositors, the Board of Trustees has been very exacting. It early decided that compound interest should not be allowed. A depositor, however, may withdraw interest payable, and then immediately redeposit it as principal. This ruling of the board seems petty. Remembering the legal limitations on maximum deposits, and the provision of the law that interest cannot be paid on fractions of a dollar, it is difficult to see justification for this unusual ruling against compound interest. That it is an item of considerable importance will be seen from the fact recently cited by the Third Assistant Postmaster General, that interest allowed depositors from the beginning of the postal savings system to August 31, 1915, amounted to $1,467,604, of which amount $877,412 had been applied for and paid by postmasters, and the remainder, $590,192, had not yet been applied for,[49] and consequently was not drawing interest. The hardship which it works is greater since the interest-bearing limit has been raised from $500 to $1,000.

A second ruling, and one of much more serious moment to depositors, is that no interest shall be paid on money which remains on deposit for less than a year, and no interest shall be allowed for fractions of a year even after the money has been on deposit a full year. There is a certain amount of irony in the following quotation from the 1914 annual report of the Third Assistant Postmaster General:

> Interest on deposits [of postal savings funds] in banks is computed on the basis of average daily balances......Interest on postal savings certificates is computed on the basis of deposits which have remained for one or more full years from the first day of the month following the month in which the deposits were made.[50]

[49] *The United States Postal Savings System,* pp. 13-14.

[50] *Report,* p. 6. Furthermore, it has been ruled that a depositor who moves away from the town or city in which his postal savings account is held, cannot transfer his account to his new place of residence, before the end of his

The amount of interest of which these regulations deprive depositors every year is large. Take the year 1916 for example. The fiscal year began with a balance to the credit of depositors of $65,684,708 and ended with $86,019,885. The mean deposit balance was therefore $75,852,296. At 2 per cent per annum the interest on this sum would have been $1,517,046. As a matter of fact, the interest "allowed and entered to the credit of depositors" was but $964,187, or 1.27 per cent on the mean annual balance.

On the other hand, aside from the 5 per cent reserve kept with the Treasurer of the United States, the government deposited practically[51] all of its postal savings funds in banks at interest at the rate of 2½ per cent per annum on average daily balances. The interest received in these bank deposits for 1916 was $1,764,368. Adding to this the $34,966 received on the 2½ per cent bond investments, one arrives at $1,800,000 (in round numbers) as the interest earned for the year. This represents an average daily balance, drawing interest, of $72,000,000.[52] This sum came entirely from depositors, but for the same period the sum on which interest was allowed and entered to the credit of depositors was but $48,209,350, or 67 per cent of that upon which the government received interest. Viewed in another way, if the government had paid its 2 per cent to depositors on the same sum (less the 5 per cent reserve) as that upon which it received its 2½ per cent it would have paid depositors $1,516,000 instead of $964,187.

The explanation of the great discrepancy between interest paid and interest received consists chiefly in the fact that depositors forfeit their accumulated interest by withdrawing substantial sums before the end of the year interest-period. Third Assistant Postmaster General Dockery recently cited the following figures relating to this subject before a committee of the United States Senate:

> Sixty-two per cent of the deposits are withdrawn before they have been on the deposit one year; 53 per cent of the 38 per cent that remains is withdrawn within the second year; and of the 18 per cent that still remains, 48 per cent is withdrawn within the third year,

"deposit year," without forfeiting his accumulated interest. He can make the transfer only by closing his old account, and opening an entirely new one at his new place of residence.

[51] A small amount was invested in 2½ per cent postal savings bonds, but the entire income on these bond investments for the year 1916 was only $34,966.

[52] On this basis the total average daily balance (inclusive of the 5 per cent reserve at Washington) would have been about $75,800,000.

leaving approximately only 9 per cent of the deposits in the custody of the Government at the end of the third year.[53]

As a matter of fact the interest rate paid is so low that it makes a very weak appeal to the class of people who deposit in the postal savings banks. Their motive is primarily security. The government is now realizing large profits from the postal savings system[54]—for 1916 the estimated profit was $481,816[55]—and this profit is coming from a class of people in the community from whom it is bad social policy to take it, *viz.*, from the thrifty poor. Of course it would be administratively impracticable to pay interest to depositors on average daily balances. Would it be expecting too much, however, to ask for our postal savings depositors the allowance of interest on half-yearly or even quarterly balances? Moreover, is it unreasonable to ask the Board of Trustees in view of the nomadic character of our foreign born population which patronizes the postal savings system most, to devise a simple system of transfer by which a depositor who is changing his place of residence may transfer his postal savings account without forfeiting his accumulated but as yet undue interest?

Investment of Postal Savings Funds

The most difficult problem which Congress had in formulating its postal savings plan in 1910 was that of the investment of the deposited funds. In most countries postal savings funds are invested in the public debt, but such a disposition of them in the United States was out of the question because the United States public debt was small and was not looked upon as permanent, and because most of it was already tied up as security for national bank note circulation. There was a widespread belief both in Congress and outside that any feasible plan for the investment of postal savings funds must meet five requirements: (1) The investments must be safe. (2) Either all or a substantial proportion of them must be payable on demand since the postal savings deposits were to be demand deposits. (3) The investments must yield a sufficient rate of interest to pay the interest due to depositors and the expenses of administration. (4) The funds

53 *The United States Postal Savings System*, 1916, *op. cit.*, p. 5.

54 The first two years the system was run at an estimated loss of $1,000,000. Since that time every year has witnessed a substantial net profit to the government.

55 *Board of Trustees, Annual Report of the Postal Savings System*, 1916 (House Doc. No. 1433, 64 Cong. 2 Sess.), p. 61.

must be kept for the most part in the local communities where the deposits are received. The idea of the desirability of keeping "the money at home" was almost a fetish both among the advocates and the opponents of the postal savings legislation. Local communities throughout the country under the leadership of local bankers and of the postal savings legislative committee of the Savings Bank Section of the American Bankers' Association were prompt to inform their representatives in Congress that, if postal savings banks were to be established, they desired the deposited funds to be kept at home, and at all costs to be prevented from flowing to Wall Street. (5) The investment must take such a form as to make the postal savings system constitutional. In the Senate the postal savings bill had been vigorously attacked on the ground of unconstitutionality. It was declared that the avowed object of the bill was to encourage thrift, and that the Constitution conferred upon Congress neither directly nor by implication the right to create governmental machinery for that purpose. The advocates of the bill of course rested their case chiefly upon the doctrine of implied powers, and they found authority for such legislation implied in the power to "coin money" and "regulate the value thereof," the power to "regulate commerce . . . among the several states," the power to "establish post offices and post-roads," and, finally and chiefly, upon the power "to borrow money on the credit of the United States." Inasmuch as the deduction of constitutional authority to establish a postal savings system from all the above-mentioned powers, except the last, seemed rather weak even to the advocates of postal savings banks, the bill in its later stages was modified so as to bring into prominence the right of the United States government to borrow postal savings funds for national needs, both normal needs and emergency needs.

This brief explanation will give the reader the underlying philosophy of the investment features of the act,[56] which were briefly as follows: Postal savings funds were divided into three parts (section 9 of act): (1) A 5 per cent reserve fund to be kept in lawful money in the Treasury of the United States; (2) a sum not exceeding 30 per cent of the amount of postal savings funds, which "may at any time be withdrawn by the Trustees for investment in bonds or other securities of the United States";

[56] The debate in Congress over the constitutionality of the bill, with citations, is discussed at some length in the article by the writer previously cited, in the *Political Science Quarterly*, vol. XXVI (1911), pp. 486-491.

(3) a sum, which normally should not be less than 65 per cent of the total postal savings deposits, to be kept on deposit "in solvent banks, whether organized under national or state laws, being subject to national or state supervision and examination. . . ."[57] It was declared to be the intent of the act that this residual 65 per cent should remain on deposit in the banks in each state and territory willing to receive them,[58] and should be a working balance and a fund which might "be withdrawn for investment in bonds or other securities of the United States, but only by direction of the President, and only when, in his judgment, the general welfare and the interests of the United States so require." This latter provision authorizing the borrowing of the balance by the government was motivated largely by the desire to strengthen the constitutional position of the act.

Postal savings funds deposited in banks were to bear interest at a rate of not less than 2¼ per cent, and the Board of Trustees was to require depository banks to give adequate security for such deposits, in the form of "public bonds or other securities, supported by the taxing power."

Investment in bonds. Aside from the purchase of a few postal savings 2½ per cent bonds ($1,558,500 in all down to June 30, 1916) from their holders in order to maintain their parity, the trustees of the postal savings system have made no purchases of bonds whatever. The banks, despite their early opposition to the system, showed great eagerness in most localities to secure postal savings deposits, and from the beginning practically all of the funds were deposited in banks.[59]

57 The word "bank" was declared by the law (sec. 9) to "include savings banks and trust companies doing a banking business."

58 The funds received at the postal savings depository offices in each locality were to be deposited "in banks located therein (substantially in proportion to the capital and surplus of each such bank) willing to receive such deposits under the terms of this act and the regulations made by authority thereof. . . . If no such bank exist in any city, town, village, or locality, or if none where such deposits are made will receive such deposits on the terms prescribed, then such funds shall be deposited under the terms of this act in the bank most convenient to such locality. If no such bank in any State or Territory is willing to receive such deposits on the terms prescribed, then the same shall be deposited with the treasurer of the Board of Trustees, and shall be counted in making up the reserve of five per centum." Section 9 of Postal Savings Act.

59 The 5 per cent reserve held in the United States Treasury at Washington is adjusted only once a year, and, inasmuch as there has been an increase of

Deposit of postal savings funds in banks. The percentage of the total postal savings deposits which had been redeposited and was held in banks at the end of each half-year period since the inauguration of the system is as follows:[60]

Date	Per cent
June 30, 1911	84.4
Dec. 31, 1911	91.1
June 30, 1912	91.8
Dec. 31, 1912	93.9
June 30, 1913	93.2
Dec. 31, 1913	94.3
June 30, 1914	94.2
Dec. 31, 1914	94.5
June 30, 1915	91.5
Dec. 31, 1915	92.8
June 30, 1916	93.8

The postal savings amendment of May 18, 1916, therefore, merely recognized the *status quo* when it repealed the provision of the act of 1910 authorizing the investment of 30 per cent of the deposits in United States securities. It reënacted the provision authorizing the Board of Trustees to invest all or any part of the postal savings funds, except the 5 per cent reserve fund, in bonds or other securities of the United States, "when, in the judgment of the President the general welfare and interests of the United States so require." Aside from this, the only provisions in the present law for the investment of postal savings funds in United States securities are: (1) That the Trustees may so invest any funds which in any state or territory "shall exceed the amount which the qualified banks therein are willing to receive under the terms of this Act, and [when] such excess amount is not required to make up the reserve fund of 5 per centum." This is a contingency which has not yet been met and is not likely to occur. (2) That the Board of Trustees may in its discretion purchase from the holders 2½ per cent postal savings bonds. As

deposits during each year, the percentage of reserve as adjusted declines throughout the year. With deposits growing as rapidly as those of the postal savings system, such a long interval between the dates of the adjustments of the reserve, results in the maintenance of a reserve which averages far below 5 per cent. Probably a 5 per cent requirement is unnecessarily high under the circumstances. If so, it should be reduced by law. To make the percentage of the reserve vary inversely throughout the year, as at present, with the amount of postal savings deposits, seems to be a questionable policy. *Cf. Ann. Rep. 3d Assist. Postmaster Gen.*, 1913, p. 37.

60 The balances on deposit in banks used in these computations are those shown by the banks' books. At all times there is a small amount of postal savings funds in the hands of postmasters.

previously noted, up to June 30, 1916, the trustees had purchased about a million and a half dollars worth of these bonds. If the market rate of interest goes up materially in the near future, and the prospects are that it will, the trustees are likely to be called upon to purchase them in substantial quantities.

Distribution of postal savings funds among banks. Soon after the act of 1910 was passed the Post Office Department received applications from all kinds of banks scattered throughout the country for the privilege of becoming depositories of postal savings funds. On December 31, 1910, the Board of Trustees issued their first series of "regulations for the guidance of banks qualifying as depositories of postal savings funds." The regulations provided that "any solvent bank, whether organized under national or state laws, . . . subject to national or state supervision and examination" might lawfully qualify as a depository. According to Director Weed, this authorization was limited to incorporated banks or "banks that are clothed with the essential attributes of corporations by virtue of legislative action."[61] Private banks were all excluded, except a certain class in Indiana which met the requirements as to "organization, supervision and examination." Branch banks were excluded which did not have apportioned to them by the parent bank a specified amount of capital. In a number of states, state banks which could have qualified under federal law were prevented from doing so by state law, but this was later remedied in most jurisdictions.[62]

In order to qualify as depositories, banks were required to submit a satisfactory report of condition and to offer proper collateral for the deposits—a subject to be considered later. Funds were to be apportioned among the qualified banks only on the first day of each quarter. A later regulation (section 10 of regulations of 1913) provided that the apportionment of deposits to newly qualified banks would only "apply to funds deposited after the date as of which the bank qualified"—a regulation that was necessary to avoid the confusion which would result from a com-

[61] *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., 1912, p. 192.

[62] State banks were originally disqualified in Arkansas, California, Kentucky, Massachusetts, Michigan, Mississippi, South Dakota, Tennessee, and Wisconsin. By 1916, however, state institutions in all of these states except Arkansas and Mississippi had qualified as postal savings depositories. *Cf.* Theodore L. Weed, "The Postal Savings Banks and the United States," in *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., Sept. 21, 1912, p. 192; and *Ann. Rep. 3d Assist. Postmaster Gen.*, 1916, p. 33.

plete reapportionment of deposits each time a new bank in the community qualified as a depository.

The number of banks of each class which were qualified as depositories for postal savings funds at the end of each fiscal year since 1912 is as follows:[63]

TABLE 5.—NUMBER OF BANKS QUALIFIED AS DEPOSITORIES, 1913-1916, BY CLASSES.

Year	National banks	State banks	Savings banks	Trust companies	Organized private banks	Total
1913	3,786	2,405	377	609	49	7,226
1914	3,627	2,099	347	617	25	6,715
1915	3,628	1,499	291	568	21	6;007
1916	3,547	1,257	262	547	21	5,634

The tendency of the total number of depository banks to decline is due to a number of causes among which may be mentioned: (1) the plethora of moneyed capital during the past two years, which has made deposits of postal savings funds unattractive to many banks, requiring as they do the pledge of collateral and the payment of 2½ per cent interest; (2) the discontinuance of postal savings banks in many communities;[64] and (3) the legislation discriminating against banks which are not members of the federal reserve system as depositories. This last item calls for further discussion.

The Federal Reserve Act, as originally enacted, contained a clause (section 15) to the effect that no government funds nor postal savings funds should be deposited in the continental United States in any bank not belonging to the federal reserve system. This provision was construed by the Attorney General to permit the continuance in non-member banks of postal savings balances already on deposit, but to prevent the making of any further deposits in such banks.[65] The discontinuance of making deposits in

63 Figures have been compiled from the annual reports of the Third Assistant Postmaster General.

64 *Supra*, p. 49.

65 Concerning this subject the Third Assistant Postmaster General said in his annual report for 1915 (p. 12): "No deposits have been made in non-member banks since November 16, 1914, the day the [federal reserve] system went into operation. The Attorney General of the United States has held that the inhibition on depositing postal savings funds in non-member banks applies only to funds available for deposit on and after the date when the system went into operation, consequently withdrawals from non-member banks have not been made except to meet the demands of the service."

non-member banks gave rise to much inconvenience and to an increase in the expenses of administration—evils which non-member banks were not slow to bring prominently before representatives in Congress. Carter B. Keene, Director of Postal Savings, said the restriction of deposits to member banks

> resulted in the elimination of hundreds of state banks. In many instances it was necessary to send funds long distances to places where eligible banks were located. This worked embarrassment in the expeditious and safe administration of the service, and at the same time defeated the dominant thought that controlled the finances of the organic Postal Savings Act, that the deposits brought out of hiding should be released for commercial purposes in the identical localities where they originated."[66]

A number of bills were introduced in Congress providing for the reauthorization of state banks as depositories, and finally a bill (H. R. 7967, 63 Cong., 2 Sess.), whose history has previously been narrated in connection with the discussion of the raising of the limits on deposits,[67] was passed by both houses of Congress, authorizing deposits of postal savings funds "in solvent banks, whether organized under national or state laws, and whether member banks or not of a reserve bank, . . . being subject to national or state supervision and examination. . . ." On September 11, 1914, President Wilson vetoed this bill, and communicated his reasons therefor in a veto message to Congress.[68] In this message he said:

> When the Federal Reserve Act was passed it was thought wise to make the inducements to State banks to enter the Federal reserve system as many and as strong as possible. It was, therefore, provided in that act that government funds should be deposited only in banks which were members of the federal reserve system. The principle of such a provision is sound and indisputable. The moneys under the control of the government ought to be placed only in those banks which are most directly under the supervision and regulation of the Congress itself. It was recognized, also, that the scattering of government deposits in small amounts among too large a number of banks would in time of stress be of decided disadvantage to the federal reserve system, which seeks as much as possible to mobilize the financial resources of the country under one control. The bill which I now return repeals that provision so far as it might apply to funds accumulated in the hands of the government under the postal savings system. It is in this provision of the bill that I find myself unable to concur.
>
> It is my clear conviction, very respectfully urged and submitted,

66 *Com. & Fin. Chron.* A. B. A. Conv. Suppl., Oct. 14, 1916, p. 192.

67 *Supra*, p. 66.

68 House Doc. No. 1162, 63 Cong., 2 Sess.

that as a matter of principle as well as of policy we should strengthen and safeguard the new banking system very jealously with a view to the ultimate unification of the entire banking system of the country under the supervision of the Federal Reserve Board. It would, in my judgment, be a grave mistake to take away any of the benefits or advantages held out by the present law to member banks to enter the system, and to take them away just as the system is about to be put into operation and the promises of the act of last December made good to the banks that have entered.

A year and a half later, *i.e.*, May 18, 1916, the Postal Savings Amendment act was passed, which contained a compromise between the positions on this subject taken in the bill previously vetoed and in the veto message. This amendment, which is the present law, provides (section 2) that:

if one or more member banks of the Federal reserve system . . . exists in the city, town, village, or locality where the postal savings deposits are made, such deposits shall be placed in such qualified member banks substantially in proportion to the capital and surplus of each such bank, but if such member banks fail to qualify to receive such deposits, then any other bank located therein may.....qualify and receive the same.[69]

In this connection it is interesting to note that the proportion of the depositories which were national banks was not very much greater on June 30, 1916, than on June 30, 1914, before the Federal Reserve Act went into effect, the respective percentages being 63 and 54.

The first two years' experience with depository banks taught some lessons which in the reorganization of 1913 led to certain administrative changes. The most important of these were the abolishment of the cumbersome system of "emergency credits" and the creation of a more efficient method of handling "out-of-town accounts."

Abolition of postmasters' "emergency credits." Each postmaster now as always is instructed to apportion his deposits of postal savings receipts among all the banks in his city or town, which are qualified as postal savings depositories, substantially in proportion to their respective capitals and surpluses.[70] All of

69 The law as thus amended has been interpreted by the Counsel of the Federal Reserve Board. See *Federal Reserve Bulletin,* July 1, 1916, pp. 331-332.

70 This system which is apparently essential to the meeting of two of the postulates of American postal savings—"keeping money at home" and satisfying "competing" banks—often becomes exceedingly cumbersome. Why this is

the postal savings funds so deposited are to be entered to the credit of the Board of Trustees of the postal savings system. Prior to July 1, 1913, however, there was one exception to this latter rule, and that was described as follows in the official regulations:

> [This rule applies except for] an amount which will be specified by the Board as an emergency credit for use by each postmaster in meeting withdrawals by depositors when he has insufficient funds on hand for such purpose. The amount thus fixed will be deposited by the postmaster to his official credit in one of the depository banks especially designated for the purpose, to be subject to his official check as postmaster for the purpose mentioned only, and will be maintained by the postmaster at the amount specified by the Board of Trustees; by means of deposits from his daily postal savings receipts . . . The amount of emergency credit may be added to the regular quota assigned to a depository bank, . . . and shall be subject to interest payment . . .[71]

That the creation of such an emergency credit account in the name of each postmaster, at whose office there was a postal savings bank, was making a system already complex doubly so is evident. It gave rise to about 13,000 extra accounts and involved "endless correspondence, bookkeeping, and interest computing details."[72]

The "emergency credit" and all the individual postal savings accounts with banks in the names of postmasters, were done away with by the new regulations put in force July 1, 1913. In place thereof the expedient was adopted of designating in each place one bank upon which the postmaster was authorized to draw his checks against the postal savings deposit (in the name of the Board of Trustees) each month, to an amount specified, as a provision for emergency needs.[73]

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true will be evident when one bears in mind that in most cities and towns the postal savings deposits each day are small, while in a large proportion of places there are several banks among which the postal savings funds must be apportioned. As early as 1912, for example, there were 40 qualified depositories in Chicago, 30 in Philadelphia, 19 in New York, and between 10 and 12 in a number of other cities. *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., Sept. 21, 1921, p. 191.

[71] *Regulations for the Guidance of Banks Qualifying as Depositories of Postal Savings Funds*, etc., issued by authority of the Board of Trustees, 1911, p. 6.

[72] Carter B. Keene, "The Postal Savings System," *Com. & Fin. Chron.*, A. B. A. Conv. Suppl., Oct. 18, 1913, p. 196.

[73] *Instructions to Postmasters at Postal Savings Depository Offices*, 1913, p. 12.

Out-of-town depositories. Another cumbersome feature of the original plan which was greatly improved in the reorganization of 1913 related to the deposit of funds in banks outside of the local community, when there was no qualified depository bank in the place where the postal savings bank was situated. Originally postmasters in such places had been required to send their postal savings funds by registered mail to the nearest town having a qualified bank or banks, and to apportion their deposits among such banks (when there was more than one) substantially according to their respective capitals and surpluses. Under the new arrangement, the postmaster at the place having no qualified banks remits his postal savings funds by registered mail to the postmaster at the neighboring place having qualified banks, and the latter postmaster deposits these funds along with his own postal savings funds, in the proper proportion in the various qualified banks. Postmasters at non-banking offices now secure funds for meeting withdrawals of deposits by means of drafts on the postmasters to whom their remittances have been made.

Collateral security. The organic postal savings act of 1910 provided that the Board of Trustees should take from depository banks "such security in public bonds or other securities, supported by the taxing power, as the Board may prescribe, approve, and deem sufficient and necessary to insure the safety and prompt payment of such deposits on demand."[74] Securities acceptable under this provision have been interpreted to be limited to the "general obligations" of the political division issuing them and payable "without restriction or limitation to a special fund from the proceeds of taxes levied upon all taxable real and personal property within the territorial limits of such political division."[75] Shortly after the outbreak of the European war the Post Office Department was "virtually swamped" with requests to accept as collateral for postal savings deposits various kinds of temporary securities. In reply to these requests the Board of Trustees, November 19, 1914, adopted the following regulations:

[74] In the amendment of May 18, 1916, this provision was reënacted; but after the words "other securities" were inserted the words "authorized by Act of Congress or." This addition apparently had reference to the agitation for authorizing postal savings funds to be invested in the securities of federal land banks, the bill for the establishment of which was then before Congress.

[75] *Rulings of Board of Trustees,* Nov. 18, 1913, as modified by rulings of Nov. 19, 1914.

Obligations of the general class embracing what are commonly known as "revenue bonds," "temporary bonds," "temporary notes," "certificates of indebtedness," "warrants," and the like obligations, whether issued in anticipation of the collection of taxes, assessments, or other revenues, or of the sale of bonds or other obligations, or for similar purposes, will not be accepted as security for postal savings deposits: *Provided,* That in applying this regulation, consideration will be given to the legal status of the obligations submitted rather than the nomenclature employed in designing such obligations.[76]

Since the reorganization of 1913, the Solicitor for the Post Office Department (designated as the Assistant Attorney General for the Post Office Department prior to November 9, 1914) has passed upon the legal acceptability of all bonds submitted as security for postal savings deposits.[77]

The Board of Trustees in its first *Regulations for the Guidance of Banks,* issued December 31, 1910, made the following ruling[78] in regard to the securities acceptable for postal savings deposits:

The following described securities at rates respectively designated, will be accepted, [and no other] . . .

(*a*) Interest-bearing bonds of the United States, bonds issued by the Government of the Philippine Islands, and bonds of the District of Columbia and the Government of Porto Rico will be received at their par value.

(*b*) Bonds of any State of the United States and bonds of the Territory of Hawaii will be received at 90 per cent of their market value, such market value not to be considered as exceeding par.

(*c*) Bonds of any city, town, county, or other legally constituted municipality or district in the United States which has been in existence for a period of ten years, and which, for a period of ten years previous, has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, and whose net funded indebtedness does not exceed 10 per cent of the valuation of its taxable property, to be ascertained by the last preceding valuation for assessment of taxes, will be received at 75 per cent of their market value, such market value not to be considered as exceeding par.

76 Pamphlet published by Post Office Department entitled, *Determining the Legal Acceptability of Bonds Offered as Security for Postal Savings Deposits,* 1915. See also *Report of the Solicitor for the Post Office Department to the Postmaster General for the Year Ended June 30, 1914,* pp. 8-12.

77 An account of his work in this connection and summaries of his decisions will be found in his annual reports.

78 *Regulations for the Guidance of Banks Qualifying as Depositories of Postal Savings Funds, etc.,* issued by authority of the Board of Trustees, 1911, pp. 4-5.

No deposit of bonds for less than one thousand dollars will be accepted, nor will fractions of a thousand be received.[79]

In 1913, bonds in the group marked (*b*) were made acceptable up to their market value provided it was not above par value; and bonds in group (*c*), for cities having a census population of over 30,000, were made acceptable up to 90 per cent of their market value instead of only to 75 per cent as formerly. If the market value is above par they are acceptable only up to par. A fourth class of securities was designated at this time which are acceptable up to 75 per cent of their market value (unless the market value is above par value). This last class consists of securities meeting the conditions mentioned for class (*c*), except for the fact that they refer to places having a census population of not exceeding 30,000.

As collateral for postal savings deposits, municipal bonds have been by far the most popular type of security offered by banks; and the demand for high grade municipal bonds for postal savings collateral has been a substantial influence in the market for a number of issues. It is an interesting fact that not a dollar has yet been lost by the postal savings system through inadequacy of security given by depository banks.

Rate of interest paid by depository banks. Section 9 of the organic postal savings act says that the rate of interest paid by depository banks shall be "not less than 2¼ per centum per annum, which rate shall be uniform throughout the United States and Territories thereof." Although there was considerable sentiment for a higher rate, the Board of Trustees, at its meeting of December 31, 1910, fixed the rate at 2½ per cent per annum payable January 1 and July 1 each year "upon the average monthly balances." The term average monthly balances was at first interpreted to mean the average of the balances held on the last of each month. Inasmuch as the balances were normally growing throughout the month, the amount on the last day was unduly high, and this method of computing led justly to complaints on the part of depository banks. The basis was accord-

79 This minimum of $1,000 worked a hardship on banks in small places having fourth class post offices; and, for banks in such places, the minimum was later reduced to $500. Since July 1, 1913, the minimum initial deposit of bonds required from banks has been $5,000 in a place with a first class post office, $1,000 in a place with a second or third class post office, and $500 in a place with a fourth class post office. *Regulations for the Guidance of Qualified Banks and Others, Effective July 1, 1913,* p. 4.

ingly changed to the average daily balance which has been generally satisfactory.

Profits realized by banks on postal savings accounts. Concerning the extent to which postal savings accounts have been profitable to depository banks it is unsafe to generalize. The profit varies with the prices of bonds acceptable as security; and the last few years have been years of unstable bond prices, and years of great uncertainty as to bond values in the future. It varies with the extent to which the deposits received will cover the collateral deposited; and it varies with the actual amount of deposits obtainable—in many cases the accounts are too small to be worth the trouble.[80] Many banks have not found it to their advantage to qualify as depositories, while others have realized good profits on such deposits,[81] and in many communities the competition for them is keen. The advantage of advertising oneself as a depository of United States postal savings funds is valued highly by many banks.

Postal savings bonds. A discussion of the postal savings system would be incomplete without a reference to the postal savings 2½ per cent bonds authorized by the act of 1910.[82] The primary object of these bonds, which are issued in denominations as low as $20, is to provide a safe and convenient form of government security for the thrifty poor, and particularly for those whose deposits in the postal savings banks have reached the legal maximum. These bonds have been issued on the first day of each January and July since the postal savings system was put into operation, and the total issue up to the close of the fiscal year 1916 was $9,151,800. Of this sum, approximately 86 per cent was, on request, issued in the registered form; which indicates, in the judgment of the Third Assistant Postmaster General, "that they were purchased for permanent investment."[83]

80 The writer has on his desk a circular issued by a prominent bond house, in which are computed the rates of interest that would be realizable on the net investment in the case of $100,000 par value of six different high grade bonds, against which it is assumed the maximum postal savings deposits allowed by the Department's regulations would be received. The rates per annum on the net investments vary from 4.8 per cent to 19.36 per cent.

81 The banks often complain of the large "amount of red tape" that such deposits entail.

82 The bonds are redeemable at the pleasure of the United States after one year from date of issue, and are payable twenty years from date of issue.

83 Annual Report, 1916, p. 11.

On November 8, 1911, it was reported in the newspapers that some of these bonds had been sold at 92½. The report, which was apparently false,[84] caused some anxiety, and the Board of Trustees, who were authorized by the Postal Savings act (section 10) to invest postal savings funds in these bonds, promptly passed a resolution to purchase them at par upon the application of any holder, and to make immediate payment therefor in cash. Up to June 30, 1916, the board had purchased $1,558,500 worth of these bonds.

Conclusion

The postal savings system, despite the handicaps of a defective structure, has made substantial progress during the first six years of its history, and has rendered the country a real service.

When the Postal Savings act was passed the only plan that had the slightest chance of getting through Congress was a highly decentralized one which would use existing banks as depositories, and try to keep the money deposited in postal savings banks "at home." This philosophy of keeping money at home merely meant that the profits that were to be realized on the investment of postal savings funds should be given to local banks. Money is too fluid a form of capital to be "kept at home" if it is in greater demand in some other place. In 1910 it was less fluid in the United States than in most advanced countries. That was the time of a vigorous agitation for the reform of our currency and banking system whose chief defects were generally recognized to be immobility and inelasticity of currency and credit. The meaning of this was, in part, that reserves and bank credit were being kept too much at home when the public interest demanded a cheap and expeditious machinery for their prompt movement from places of redundancy to places of scarcity. But even under our defective banking system in 1910, money and bank credit were the most fluid forms of capital in the country, and were continually "leaving home." They are much more fluid in 1917 than they were in 1910, thanks to our federal reserve system, and our developing American discount market. The great bulk of the postal savings deposits are in large cities. For example, on June 30, 1916, New York City

84 The *New York Times* of November 18, 1911, quoted Postmaster General Hitchcock as saying that "the only basis for the rumor of an actual sale at that price [i. e., 92½] was an offer . . . by a New York broker to purchase $200 of the bonds below par, which was not accepted by the holder."

(including Brooklyn and Long Island City) had 24 per cent of the total postal savings deposits of the country. Does any one think that it is possible "to keep money at home" in our large cities by merely depositing it in commercial banks, or that it would be socially desirable to do so, if it were possible?

This brings me to the last point. Six years of postal savings history in the United States has shown that postal savings funds come largely from hoards and from accumulations that would otherwise be sent abroad by our foreign born. As previously noted, 86 per cent of the postal savings bonds purchased are in the registered form and presumably for permanent investment. All this seems to indicate that postal savings funds are more nearly capital funds than current business funds. Yet our depository system puts the great bulk of them into commercial banks. Should the system not be changed so as to divert a larger part of these savings into savings banks where they will be feeders for society's more permanent capital equipment?

At the present time this question is particularly opportune, for the evidence is strong that the next few years will witness a substantial increase in interest rates. This increase will bear heavily upon our mutual savings banks whose assets in the form of long-time bonds and mortgages are likely to decline in value at just the time that the higher interest rates payable on securities will be attracting funds away from savings banks into fields that appear to be more remunerative, *e. g.*, small denomination bonds. A more liberal use of savings banks as depositories for postal savings funds would assist these worthy institutions to tide over a troublesome period of readjustment. The type of depositor who uses the postal savings system is not the one who will be induced to withdraw deposits in order to invest the funds in securities yielding a higher rate of interest. To accomplish much in the direction suggested would require an amendment to the Postal Savings act. The fact that savings banks, with few exceptions, are not members of the federal reserve system is not a strong argument against this proposal, because there is no sound public policy in encouraging them to join as active members.[85] The federal reserve system

[85] A bill prepared by the Federal Reserve Board and now in Congress authorizes mutual savings banks not having a capital stock to become *associate* members of the federal reserve system, under certain prescribed conditions. It is a very desirable amendment. (*Federal Reserve Bulletin,* Feb. 1, 1917, p. 101.)

is primarily a system for commercial banks. Could not our best grade savings banks wisely be put on an equal footing, at least, with commercial banks which are members of the federal reserve system, with regard to qualifying as depositories for postal savings funds?

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